MINNESOTA
DEPARTMENT OF
PUBLIC SERVICE

REBUTTAL TESTIMONY AND EXHIBIT OF EDWARD C. BODMER ON MERGER SAVINGS AND FREEZE CONDITIONS

BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

IN THE MATTER OF A REQUEST FOR
APPROVAL OF THE MERGER OF
NORTHERN STATES POWER COMPANY
WITH
WISCONSIN ENERGY CORPORATION

DOCKET NO. E,G002/PA-95-500

NOVEMBER 8, 1996

TESTIMONY OF EDWARD C. BODMER
NORTHERN STATES POWER COMPANY

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I. BACKGROUND

Q. State your name and business address.

A. My name is Ed Bodmer. My business address is 205 North Michigan Avenue, Chicago, Illinois.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Minnesota Department of Public Service (the Department or DPS).

Q. Are you the same Ed Bodmer who previously testified in this proceeding?

A. Yes.

II. PURPOSE OF REBUTTAL TESTIMONY

Q. What is the purpose of your rebuttal testimony?

A. I respond to the testimony of Curtis C. Nelson of the Office of Attorney General (OAG) on merger-related savings. I also include some minor corrections to my direct testimony.

Q. Have you prepared any exhibits in support of this rebuttal testimony?

A. Yes. DPS Exhibit No. ____ (ECB-7) and DPS Exhibit No. ____ (ECB-8) were prepared by me or under my direction. In addition, two revised exhibits to my direct testimony, DPS Exhibit No. _____ (ECB-2) Revised and DPS Exhibit No. ___ (ECB-3) Revised, were prepared by me or under my direction.

Q. Does this rebuttal testimony substantially change any of the conclusions in your direct testimony?

A. No.

III. RESPONSE TO OAG TESTIMONY

Q. How does the testimony of OAG witness Nelson differ from your testimony?

A. OAG witness Curtis Nelson asserts that the Primergy merger may result in savings that *exceed* the estimates developed by Mr. Flaherty on behalf of NSP. He bases his conclusion on NSP's response to OAG Information Request No. 14. NSP claims that Centerior, Pacificorp, Midwest Power Systems and Western Resources have generated actual merger-related savings that exceed the original estimates. In contrast, I conclude that actual merger-related savings have been *below* estimated levels.

Q. On page 11 of his testimony Mr. Nelson states that "where public information is available on mergers, all four merger cases have shown that actual savings are larger than the estimated pre-merger savings." How does this statement relate to the conclusions of your direct testimony?

A. In my direct testimony I conclude that cost savings directly attributable to the Primergy merger are lower than Mr. Flaherty's estimate. I base my conclusion on a function-by-function analysis of NSP's estimated employee reductions, and *verify* my conclusion using data from completed mergers. This data demonstrates that actual savings have been below estimated amounts. Therefore, Mr. Nelson's statement is contrary to the portion of my analysis that verifies my function-by-function analysis.

Q. Elaborate on the data Mr. Nelson uses to reach his

conclusions.

A. Mr. Nelson uses a table provided by Mr. Flaherty that states that the estimated versus actual data is from "instances where publicly available information has been provided that compare actual savings to estimates savings." However, NSP provides neither documentation as to the source of the public information nor the basis for calculating actual and estimated savings.

Mr. Flaherty has included a similar table of actual and estimated savings in many of his speeches on mergers and acquisitions. The greatest amount of detail supporting the actual and estimated data is provided in a presentation Mr. Flaherty delivered to the National Tax Symposium in December 1994. In this speech Mr. Flaherty explains the following:

- All actual savings from the Western Resources merger have not been quantified.
- For the Pacificorp merger, savings are in the third year following the merger. For the Western Resource and the Centerior mergers, the savings date from the first year following the merger.
- For the Midwest Power Systems merger, the savings are based on a two-year annual average.

Q. Comment on the *estimated* level of savings used in Mr. Flaherty's table.

A. In addition to providing the dollar amount of estimated savings, Mr. Flaherty presents data on the percentage savings in non-fuel operations and maintenance expenses and the

percentage savings in fuel expenses. I have compared estimated savings on the basis of these percentage amounts to the estimates provided in NSP's response to OAG Information Request No. 14. (See page 1 of DPS Exhibit No. ____ (ECB-7.)

The first table in DPS Exhibit No. ____ (ECB-7) shows that Mr. Flaherty's dollar estimates are reasonably consistent with his percentage estimates, although the dollar amounts vary between 67 percent and 155 percent of the estimates computed on the basis of Mr. Flaherty's percentage data.

Q. How should the *actual* savings associated with a merger be computed?

A. On page 12 of his direct testimony, Mr. Nelson points out that "even after the merger it may be difficult to determine the savings due to the merger." I agree. The problem in assessing actual levels of merger-related savings is that savings must be computed by comparing actual costs (or employee counts) with the costs that the company would have incurred without a merger. A formula for computing merger-related savings can be represented as:

Actual Merger-Related Savings = Actual Amount
- Amount that would have existed without a merger

The most difficult number to determine in the above formula is the amount that would have existed without the merger. In my direct testimony I explain that an objective approach to calculating the costs or employee levels that would have existed without the merger is to use data from efficient,

comparable "benchmark" companies. Other approaches, such as management surveys of merged companies, are very subjective and probably biased. For example, in defending a decision to merge, management may attribute virtually any cost reductions to the merger, even if those cost reductions could have easily occurred without the combination.

Q. Describe how your analysis of actual savings compares to the savings NSP provided to Mr. Nelson.

A. To analyze the actual level of savings in completed mergers, I review trends in employee counts and administrative and general expenses for merged companies with trends for "benchmark" companies. I supplement the analysis presented in my direct testimony by evaluating non-fuel expenses and salary costs. I include this additional analysis because Mr. Flaherty uses non-fuel expenses in his calculations of estimated savings and the salary cost data confirms the employee count data. I apply the same method I describe in my direct testimony: I compute an index relative to a peer group and an industry average benchmark to develop percentage savings. Merger-related savings for salaries and non-fuel expenses, as well as employee counts, are shown on page 2 of DPS Exhibit No. ____ (ECB-7). (I show employee counts because Mr. Flaherty estimates percentage reductions in employees.)

The indices of each merged company for non-fuel operation and maintenance expenses and salary costs are presented in DPS Exhibit No. ___ (ECB-7). The graphs in this

exhibit include the relative index of costs for the pre-merger and post-merger time frame, as well as average cost indices for pre-merger and post-merger periods.

Q. What do you conclude from the additional analysis of actual merger-related savings?

A. The reported data submitted by firms that have completed mergers shows the following:

- The analysis of non-fuel expenses shows that some merged companies achieved lower expense increases than peer groups or the national average, while others did not. This means that the data is generally inconclusive with respect to whether mergers have actually generated expense savings. However, relative to the savings estimates made by the companies prior to the merger, only in one single case -- Pacificorp -- did savings exceed levels achieved by *both* the peer group and the national group. Therefore, the data demonstrates that actual expense savings have been less than estimated savings.
- There is virtually no difference in employee counts between merged and non-merged companies (except for Centerior, which experienced dramatic non-employee-related expense increases). Therefore, the number of employee reductions estimated by utility companies prior to the merger is less than the actual number of employee reductions. The direct payroll costs

should exhibit similar trends as the employee counts. On the basis of direct payroll, some of the merged companies produced savings relative to either the peer group or the industry. However, the savings in direct payroll costs were below the original estimates.

Q. Can you use industry data to evaluate potential merger-related savings using regression analysis?

A. Yes. In my regression analysis of how administrative and general costs are influenced by business conditions, I include an "explanatory" variable which measures the size of a company in terms of retail sales. Based on this regression analysis I conclude that doubling the current size of NSP and WEC would theoretically reduce administrative costs by $10.7 million. The regression analysis is documented in DPS Exhibit No. ____ (ECB-8), entitled "Workpaper on NSP and WEC Productivity." The savings of $10.7 million, derived from increasing the size of NSP and WEC, are far lower than the merger-related savings NSP attributes to administrative and general expenses. Therefore, my regression analysis further confirms my conclusion that actual savings specifically attributable to a merger are likely to be below estimated levels.

IV. CORRECTIONS TO DIRECT TESTIMONY

Q. Do you have any corrections to your direct testimony?

A. Yes. The dollar savings computed from merger-related

employee position eliminations in my direct testimony reflect a slight error. The error occurred in translating employee position eliminations to year-by-year savings. This error affects both my low-end and high-end estimates. I include corrected Tables 1 and 4 below to provide the Commission with the correct estimates. In addition, Table 3 in my direct testimony had a typographical error regarding the number of NSP merger-related position eliminations. The correct number is 74 for both DPS scenarios. Corrected Table 3 below illustrates this change.

Corrected Table 1
Summary of Estimated Corporate and Operations
Labor Savings From the Primergy Merger

	Nominal Savings over 10 Years ($ Millions)	Number of Employee Reductions	Percent Reductions in Employees
NSP Estimate	$1,205	1,223	10.1%
DPS Low-End Projection	641	637	5.27%
DPS High-End Projection	$832	839	6.94%

Corrected Table 3
Merger-Related Position Eliminations

	NSP	DPS High-End	DPS Low-End
Eau Claire Office	276	74	74
Non-Eau Claire	947	765	563
Total	1,223	839	637
Percent of NSP's Estimate		68.6%	52.1%

Corrected Table 4

DPS Year-by-Year Estimated Corporate and Operations Labor Savings from the Primergy Merger

Year	DPS Low-End Projection	DPS High-End Projection
1997	39,410,637	49,969,063
1998	49,342,041	64,192,492
1999	53,396,610	69,473,808
2000	57,571,632	74,911,877
2001	61,875,293	80,517,367
2002	66,315,878	86,301,072
2003	70,901,897	92,274,078
2004	75,642,082	98,447,758
2005	80,543,976	104,831,988
2006	85,614,907	111,436,320
Total	640,614,953	832,355,824

Q. Do you have any corrections to the exhibits you filed with your direct testimony?

A. Yes. DPS Exhibit No. ____ (ECB-2) and DPS Exhibit No. ____ (ECB-3) contain minor errors. These errors are corrected in DPS Exhibit No. ____ (ECB-2) Revised and DPS Exhibit No. ____ (ECB-3) Revised.

Q. Does this conclude your rebuttal testimony?

A. Yes.

ESTIMATED SAVINGS IN COMPLETED MERGERS								
Merger	Year	Non-Fuel Percent Savings[1]	Non-Fuel Dollar[2] ($Millions)	Fuel Percent[3]	Fuel Dollar[4] ($Millions)	Total: Flaherty Percent-ages	Dollars in OAG IR 14	Ratio of Dollar Savings Estimates
Pacificorp	1989	5.9%	$33.489	8.6%	$36.910	$70.399	$101	67%
Centerior	1986	6.2%	$34.025	2.0%	$8.508	$43.533	$34	128%
Western Resources	1992	6.9%	$19.226	2.1%	$4.766	$23.992	$20	120%
Midwest Power	1992	4.1%	$6.229	4.1%	$2.130	$10.389	$6.7	155%

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1 Page 13 of Mr. Flaherty's presentation to National Tax Symposium.

2 Percentage estimate multiplied by the dollar non-fuel expense reported in FERC form 1.

3 Page 13 of Mr. Flaherty's presentation to National Tax Symposium.

4 Percentage estimate multiplied by fuel expense reported in FERC form 1.

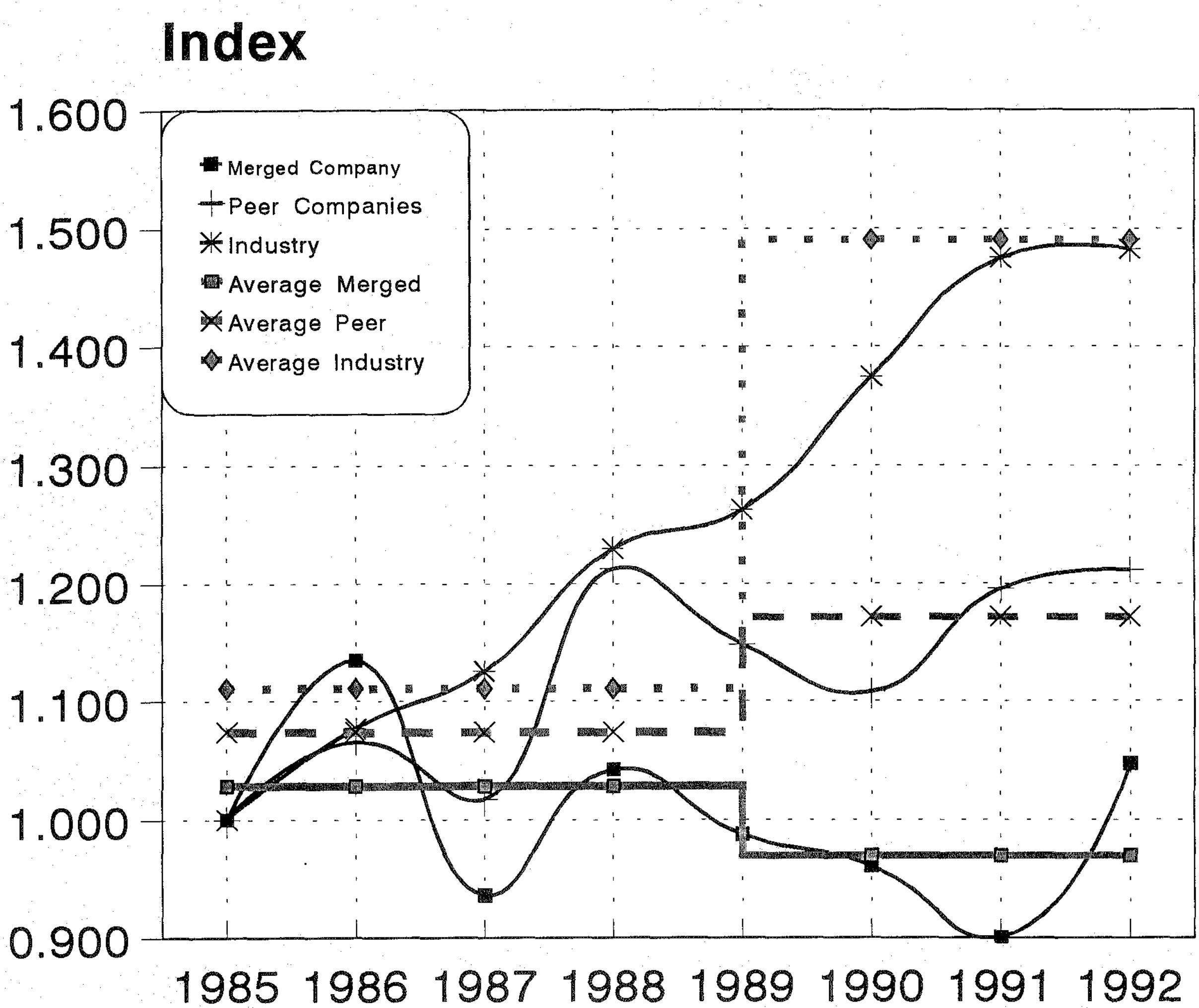
ACTUAL AND ESTIMATED SAVINGS IN COMPLETED MERGERS				
	Estimated Non-Fuel Savings[5]	Actual Index vs Peers Group[6]	Actual Index vs. National Average[7]	Actual Savings Relative to Both Peers and National Average Greater Than Estimated
Non-Fuel Expense				
Pacificorp	5.9%	13.56%	31.41%	Yes
Western Resources	6.9%	-1.85%	12.85%	No
Centerior	6.2%	-72.41%	-45.53%	No
Midwest Power Systems	6.1%	2.84%	5.50%	No
IES	4.1%	-6.13%	-9.37%	No
Salaries (Employee Counts)				
Pacificorp	11.5%	4.46%	26.97%	No
Western Resources	6.6%	30.32%	-15.56%	No
Centerior	3.4%	6.69%	16.74%	Yes
Midwest Power Systems	5.8%	-6.02%	-13.10%	No
IES	--	-16.38%	-25.41%	No
Employee Counts				
Pacificorp	11.5%	-5.93%	-3.52%	No
Western Resources	6.6%	-6.66%	3.56%	No
Centerior	3.4%	-9.77%	1.87%	No
Midwest Power Systems	5.8%	5.69%	-2.49%	No
IES	--	-14.11%	-26.61%	No

5 From Thomas Flaherty National Tax Symposium presentation, page 12.

6 From index of four years prior to merger through three years after merger relative to peer group defined in direct testimony.

7 From index of four years prior to merger through three years after merger relative to unweighted national average.

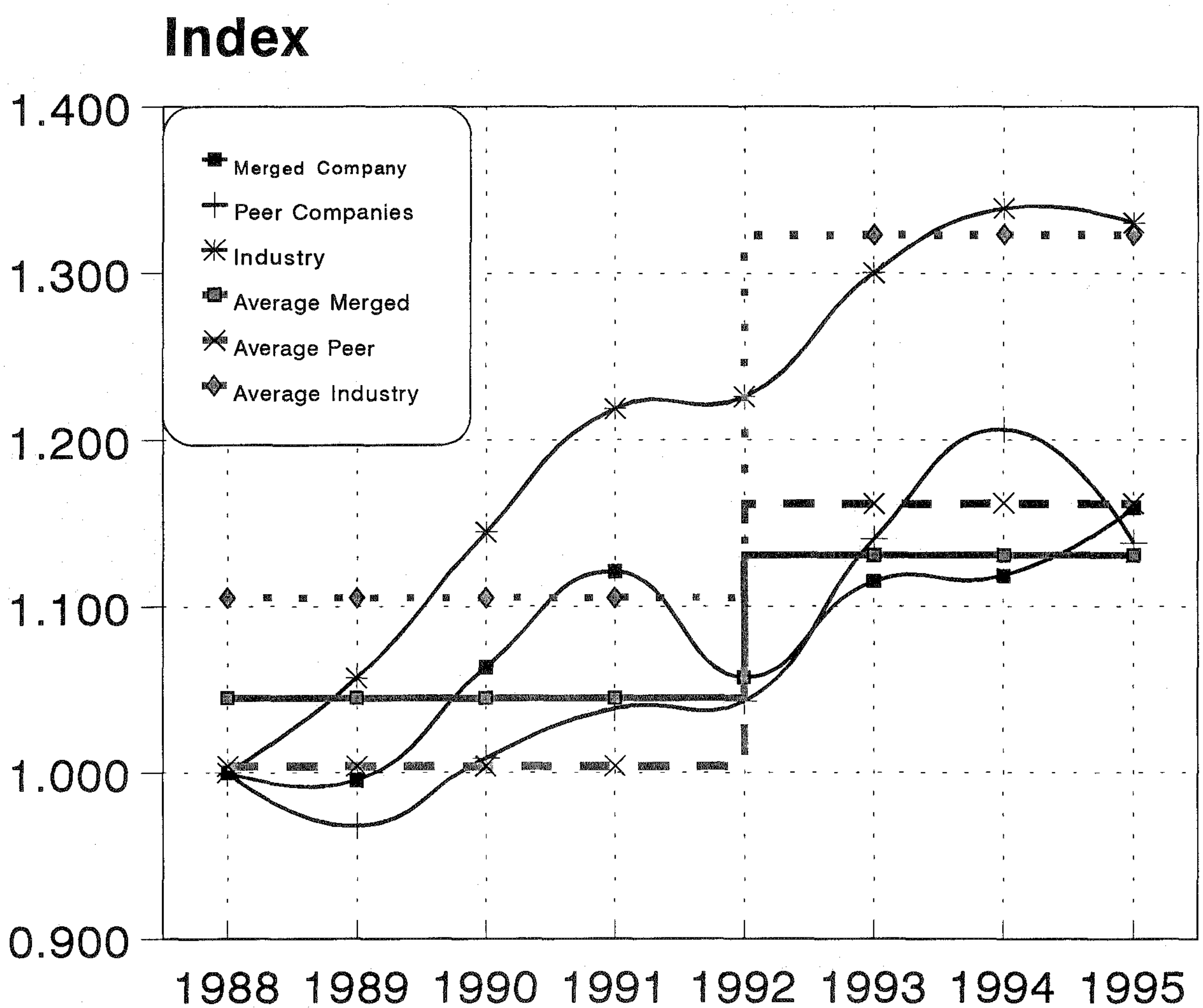
Pacificorp Merger in 1989
Non-Fuel O&M Expense



Merged Company	1.000	1.135	0.937	1.042	0.988	0.961	0.901	1.047
Peer Companies	1.000	1.066	1.017	1.213	1.148	1.108	1.196	1.212
Industry	1.000	1.077	1.125	1.230	1.263	1.374	1.475	1.483
Average Merged	1.028	1.028	1.028	1.028		0.970	0.970	0.970
Average Peer	1.074	1.074	1.074	1.074		1.172	1.172	1.172
Average Industry	1.111	1.111	1.111	1.111		1.490	1.490	1.490

Peer Group is Puget, SDG&E and P.S. Colorado

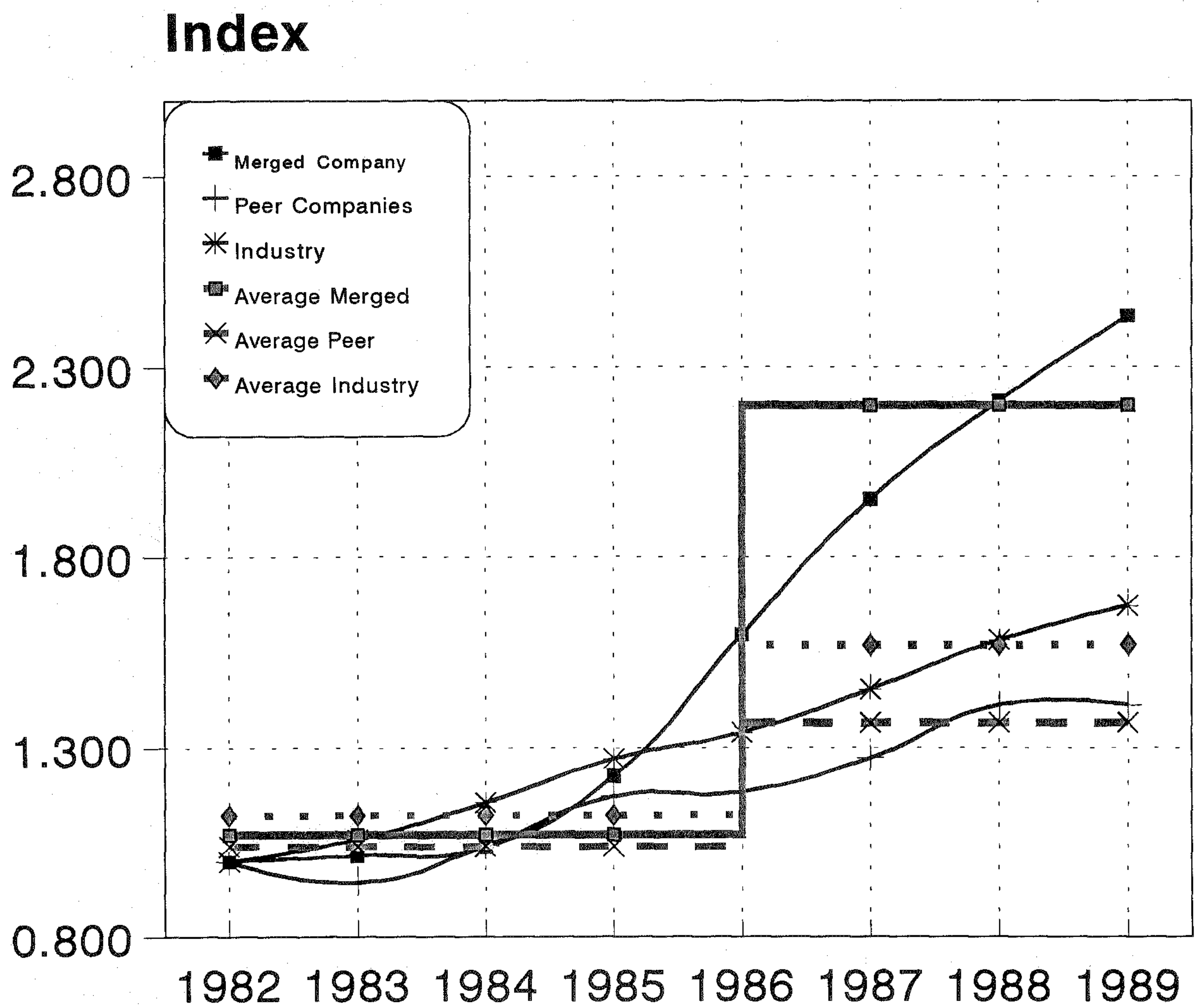
Western Resources Merger in 1992
Non-Fuel O&M Expense



Merged Company	1.000	0.995	1.063	1.121	1.057	1.115	1.118	1.159
Peer Companies	1.000	0.968	1.009	1.039	1.043	1.141	1.206	1.138
Industry	1.000	1.057	1.145	1.219	1.226	1.300	1.339	1.330
Average Merged	1.045	1.045	1.045	1.045		1.131	1.131	1.131
Average Peer	1.004	1.004	1.004	1.004		1.162	1.162	1.162
Average Industry	1.105	1.105	1.105	1.105		1.323	1.323	1.323

Peer Group is KCP&L, OG&E, PSCO, PSO, and UE

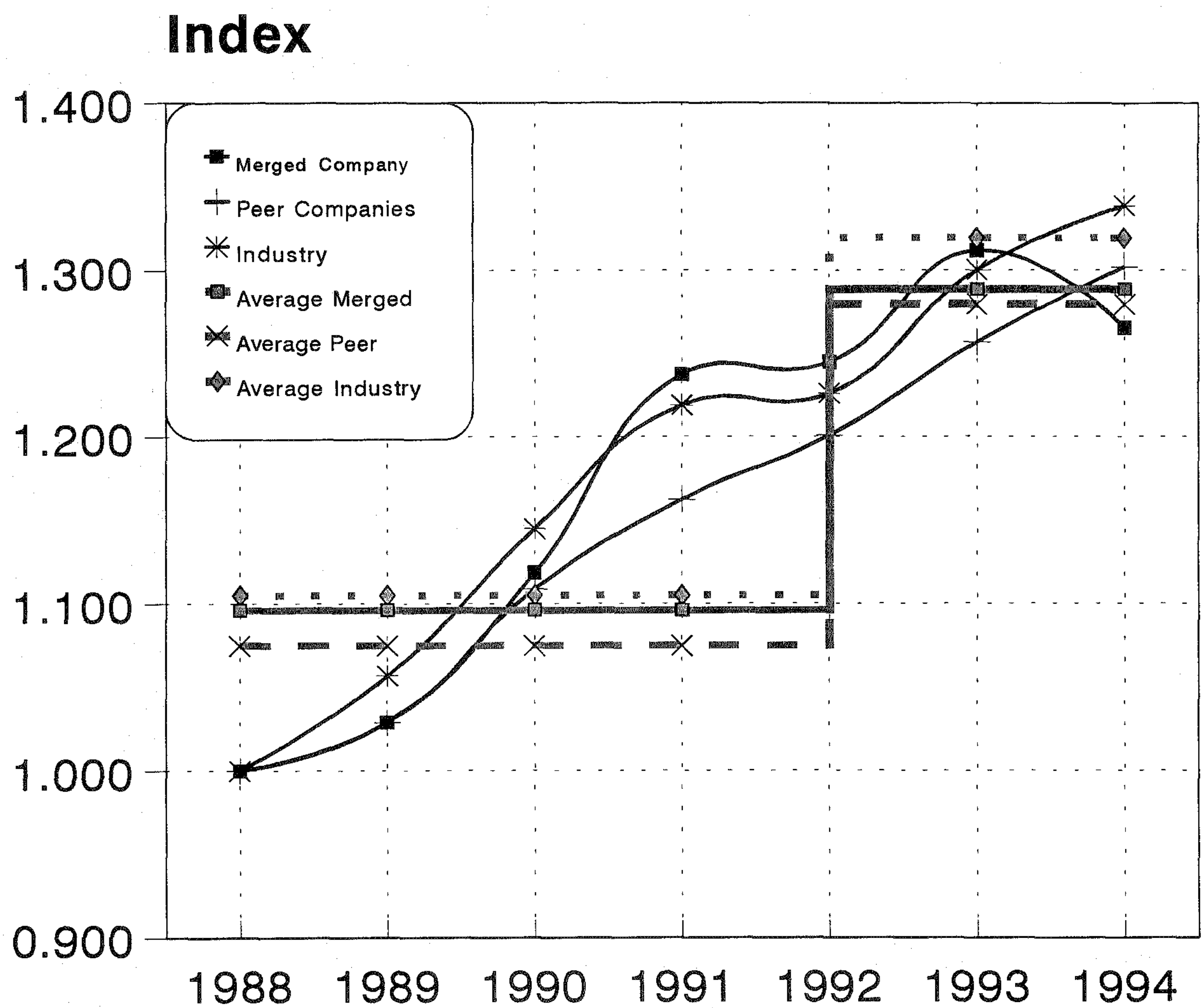
Centerior Merger in 1986
Non-Fuel O&M Expense



	1982	1983	1984	1985	1986	1987	1988	1989
Merged Company	1.000	1.016	1.038	1.226	1.597	1.951	2.210	2.434
Peer Companies	1.000	0.945	1.041	1.171	1.184	1.273	1.412	1.412
Industry	1.000	1.059	1.155	1.270	1.340	1.453	1.583	1.673
Average Merged	1.070	1.070	1.070	1.070		2.198	2.198	2.198
Average Peer	1.039	1.039	1.039	1.039		1.366	1.366	1.366
Average Industry	1.121	1.121	1.121	1.121		1.569	1.569	1.569

Peer Group is CSO, DPL, I&M, IPL, NIPSCO, SIGECO, DQU, METED, PENELEC, WEST PENN

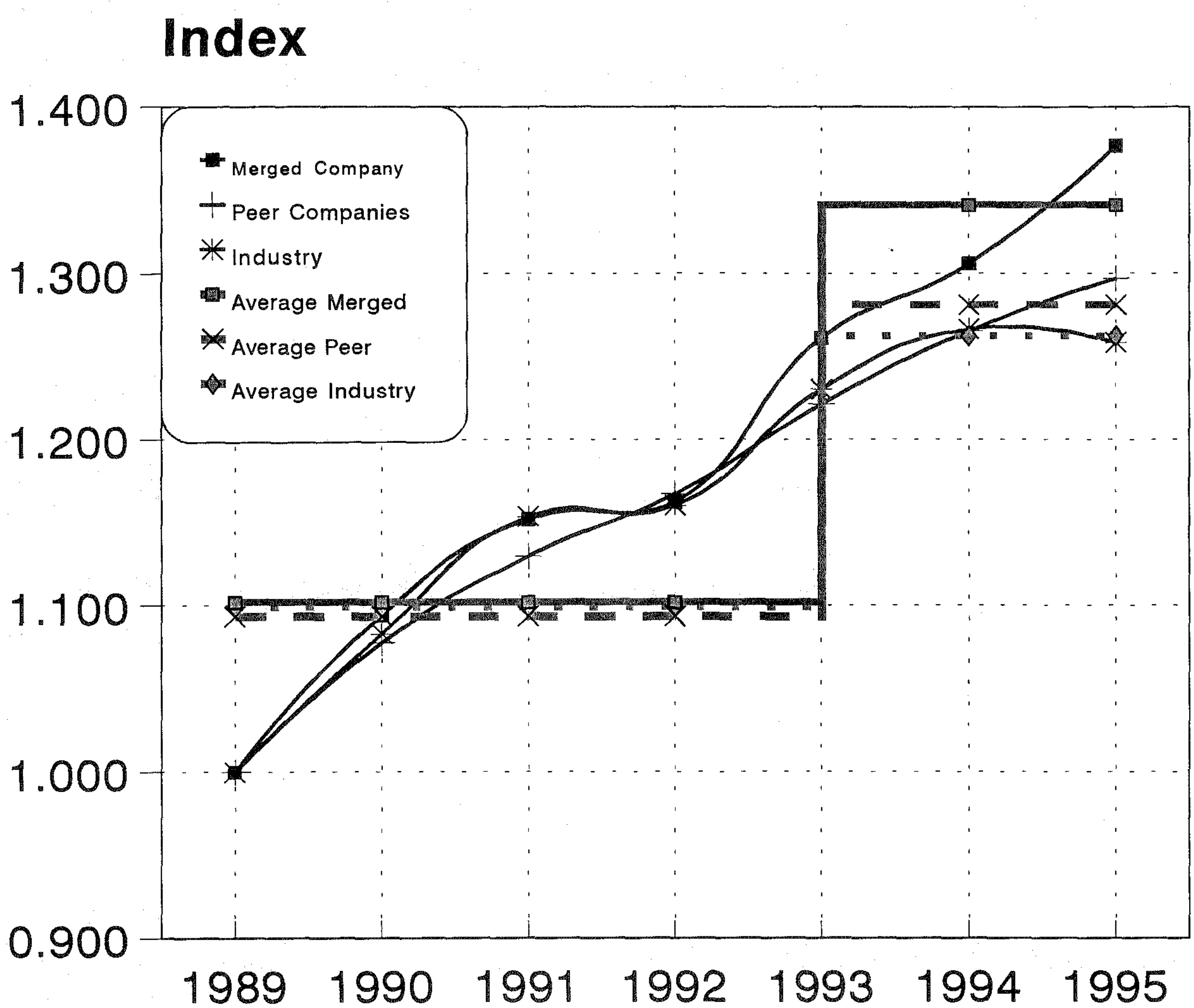
Midwest Resources Merger in 1992
Non-Fuel O&M Expenses



Merged Company	1.000	1.029	1.118	1.237	1.245	1.312	1.265
Peer Companies	1.000	1.029	1.109	1.162	1.201	1.256	1.302
Industry	1.000	1.057	1.145	1.219	1.226	1.300	1.339
Average Merged	1.096	1.096	1.096	1.096		1.289	1.289
Average Peer	1.075	1.075	1.075	1.075		1.279	1.279
Average Industry	1.105	1.105	1.105	1.105		1.319	1.319

Peer Group is CILCO, CIPS, Empire, KCPL, WPS, WPL, MPL, Otter, Interstate

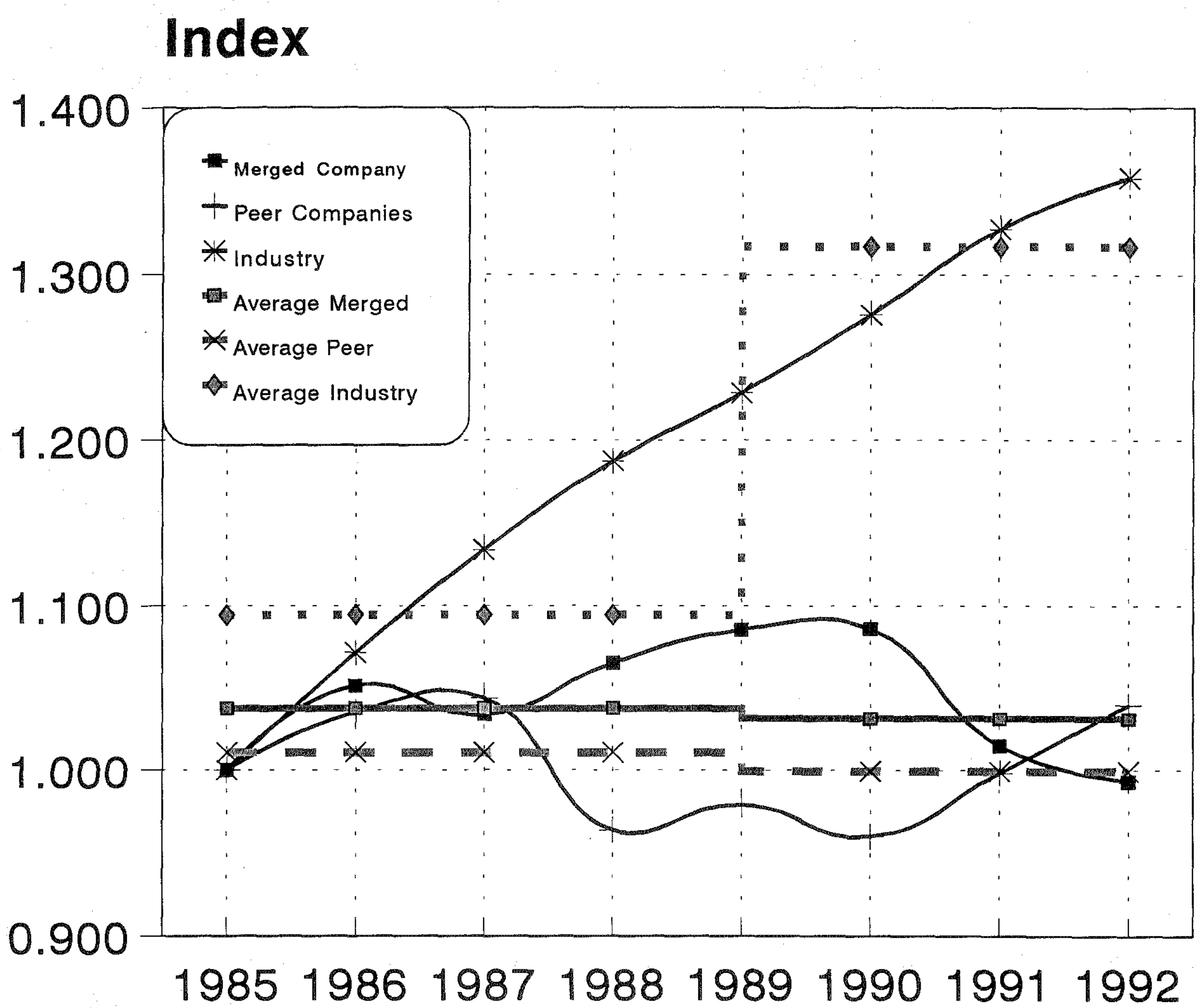
IES Merger in 1993
Non-Fuel O&M Expense



Merged Company	1.000	1.094	1.152	1.162	1.261	1.306	1.377
Peer Companies	1.000	1.078	1.129	1.167	1.221	1.266	1.297
Industry	1.000	1.083	1.153	1.160	1.230	1.267	1.259
Average Merged	1.102	1.102	1.102	1.102		1.341	1.341
Average Peer	1.093	1.093	1.093	1.093		1.281	1.281
Average Industry	1.099	1.099	1.099	1.099		1.263	1.263

Peer Group is CILCO, CIPS, Empire, KCPL, WPS, WPL, MPL, Otter, Interstate

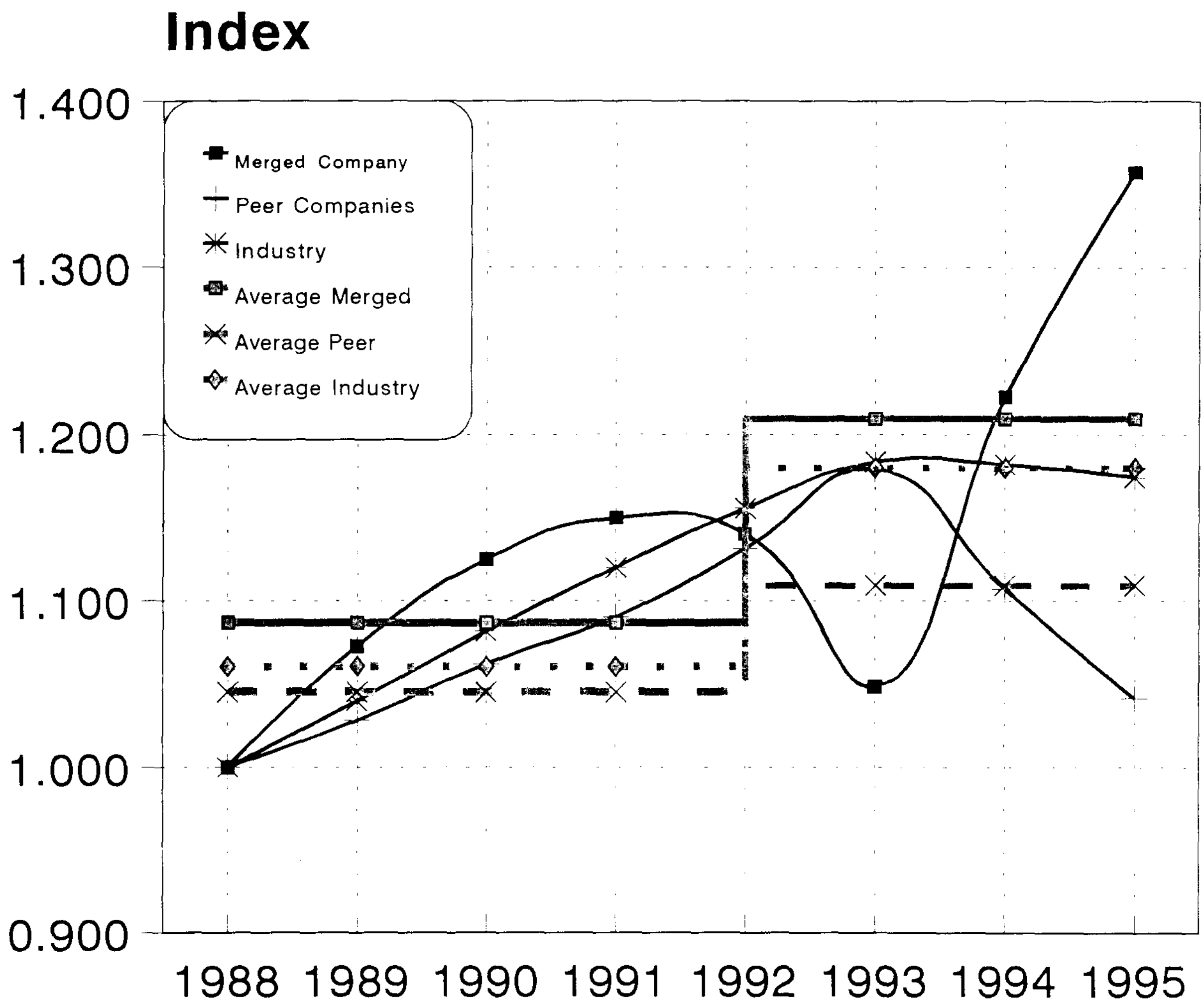
Pacificorp Merger in 1989
Direct Payroll



Merged Company	1.000	1.051	1.034	1.065	1.085	1.086	1.015	0.993
Peer Companies	1.000	1.035	1.044	0.964	0.979	0.960	0.998	1.039
Industry	1.000	1.071	1.134	1.187	1.228	1.276	1.327	1.358
Average Merged	1.037	1.037	1.037	1.037		1.031	1.031	1.031
Average Peer	1.011	1.011	1.011	1.011		0.999	0.999	0.999
Average Industry	1.094	1.094	1.094	1.094		1:317	1.317	1.317

Peer Group is Puget, SDG&E and P.S. Colorado

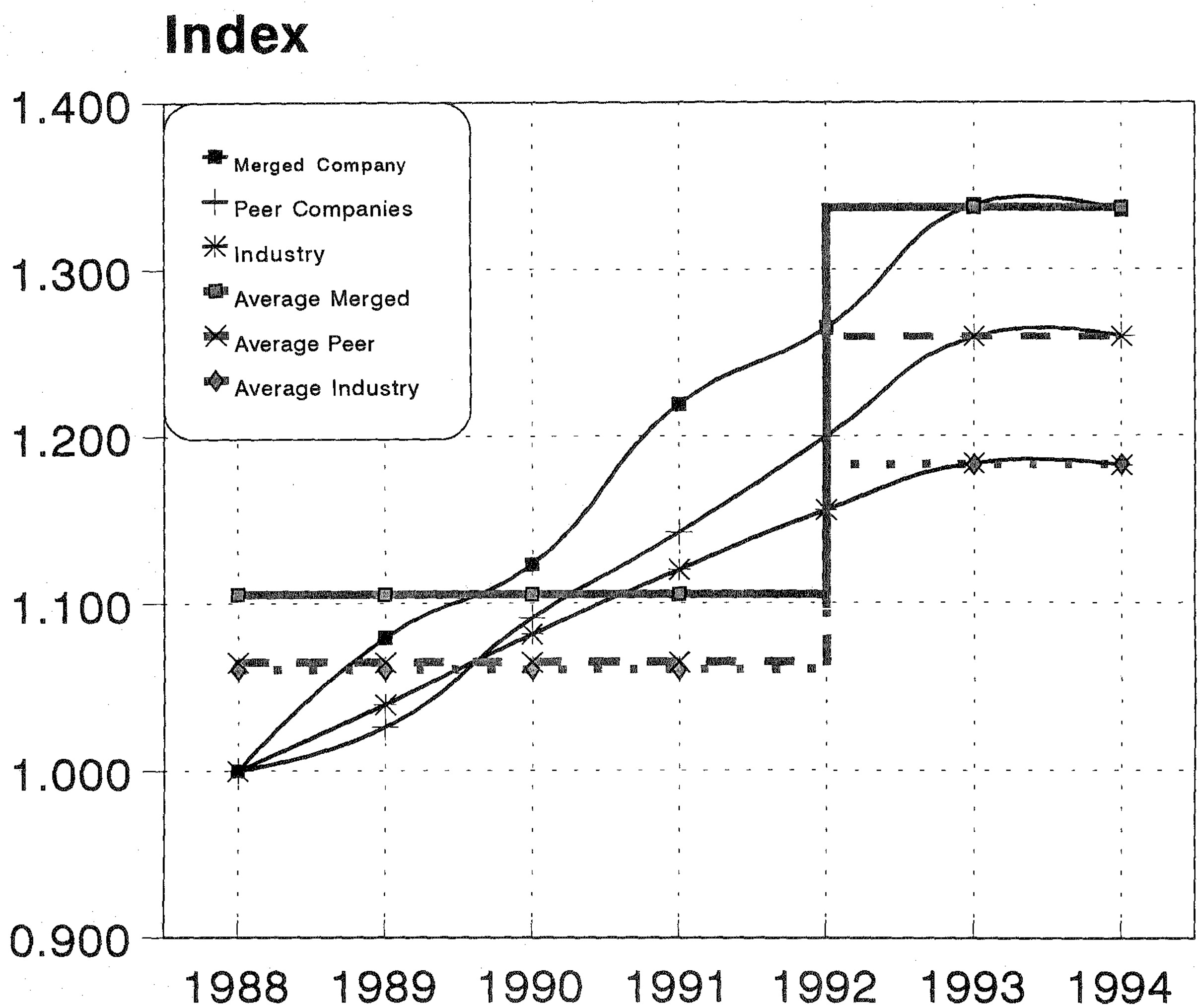
Western Resources Merger in 1992
Direct Payroll



	1988	1989	1990	1991	1992	1993	1994	1995
Merged Company	1.000	1.072	1.125	1.150	1.140	1.048	1.222	1.357
Peer Companies	1.000	1.028	1.062	1.090	1.131	1.179	1.107	1.041
Industry	1.000	1.040	1.082	1.120	1.156	1.183	1.182	1.174
Average Merged	1.087	1.087	1.087	1.087		1.209	1.209	1.209
Average Peer	1.045	1.045	1.045	1.045		1.109	1.109	1.109
Average Industry	1.060	1.060	1.060	1.060		1.180	1.180	1.180

Peer Group is KCP&L, OG&E, PSCO, PSO, and UE

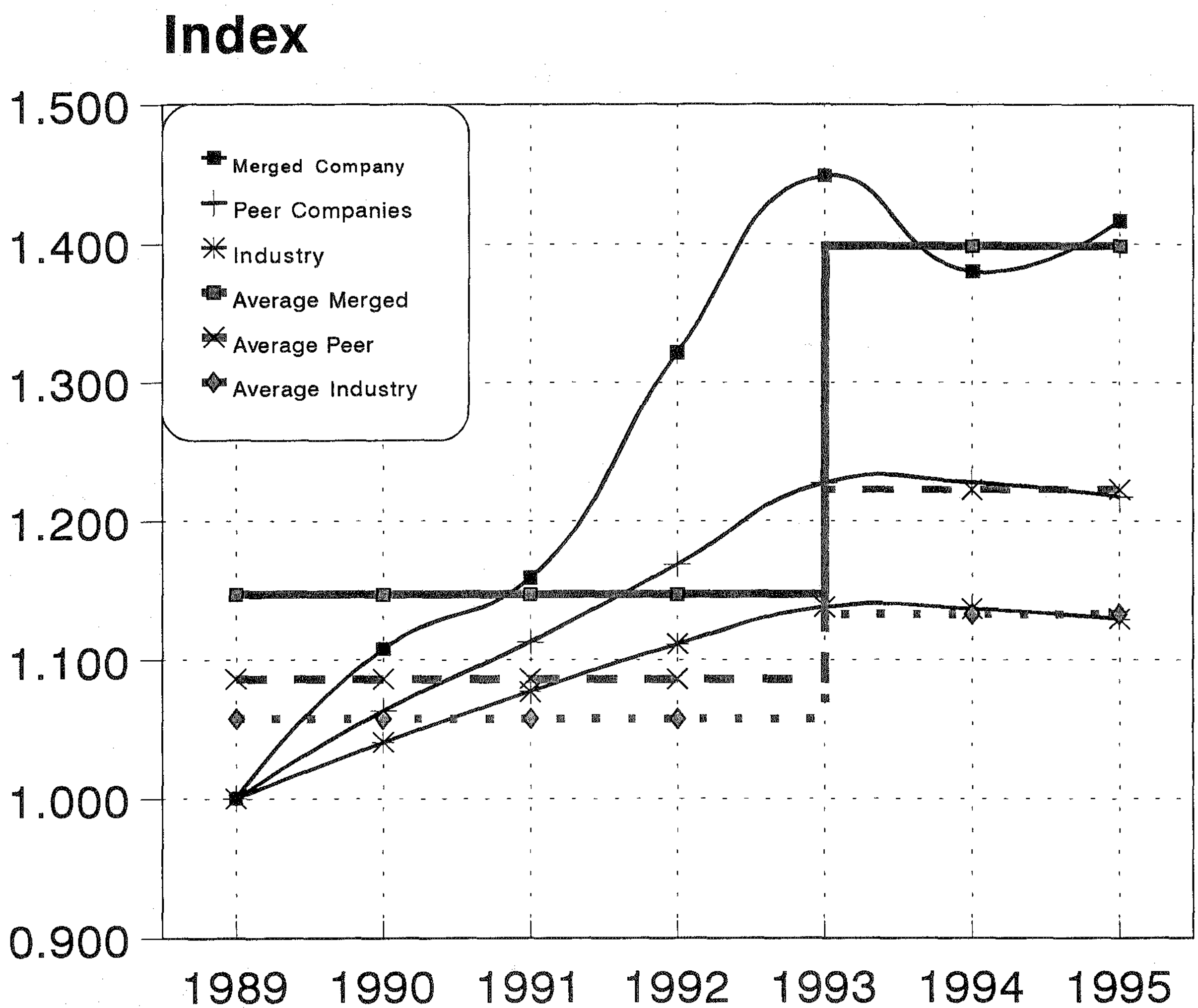
Midwest Resources Mergern in 1992
Direct Payroll



Merged Company	1.000	1.079	1.123	1.219	1.265	1.339	1.336
Peer Companies	1.000	1.026	1.091	1.142	1.200	1.259	1.260
Industry	1.000	1.040	1.082	1.120	1.156	1.183	1.182
Average Merged	1.105	1.105	1.105	1.105		1.337	1.337
Average Peer	1.065	1.065	1.065	1.065		1.260	1.260
Average Industry	1.060	1.060	1.060	1.060		1.183	1.183

Peer Group is CILCO, CIPS, Empire, KCPL, WPS, WPL, MPL, Otter, Interstate

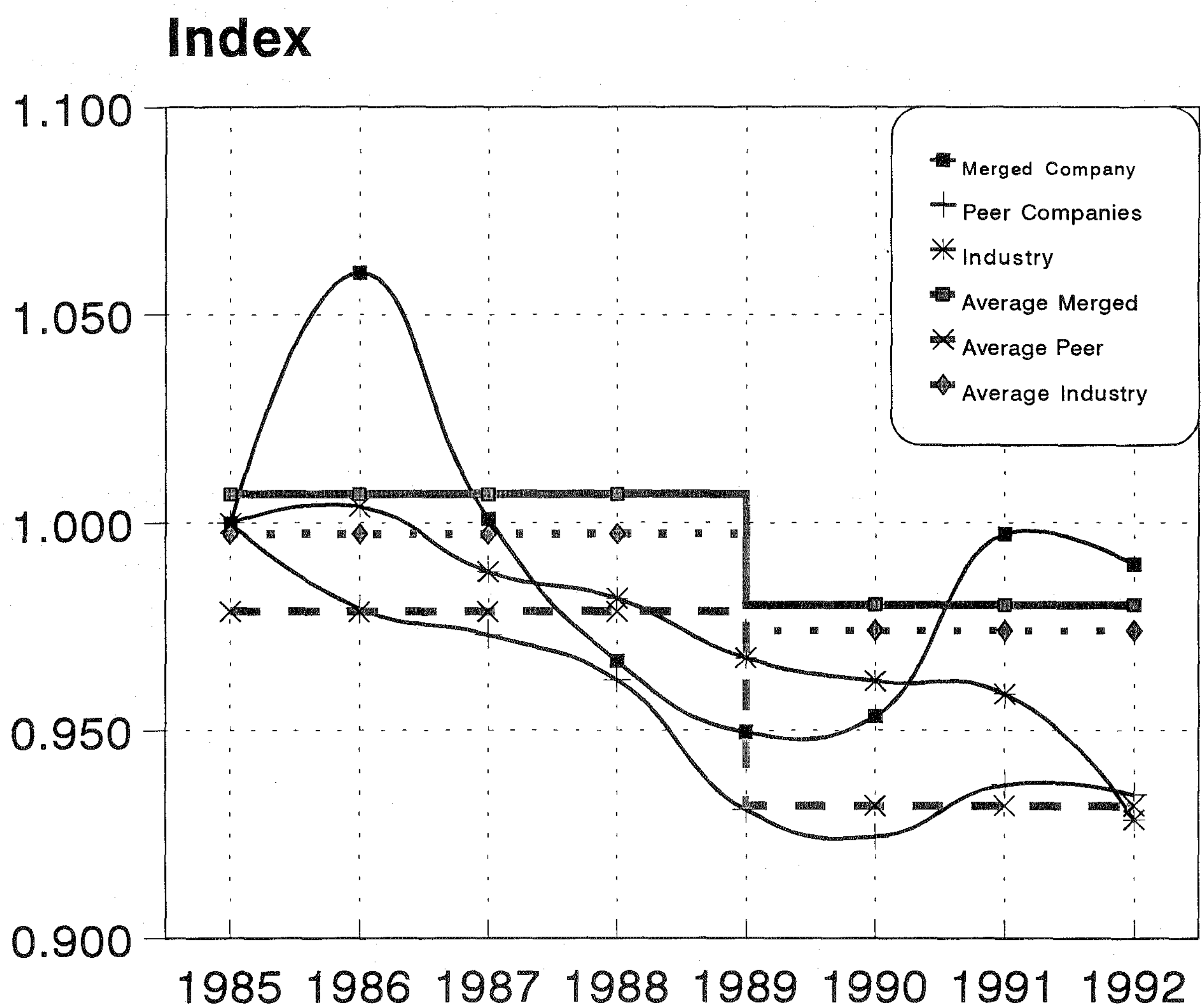
IES Merger in 1993
Direct Payroll



	1989	1990	1991	1992	1993	1994	1995
Merged Company	1.000	1.108	1.159	1.322	1.449	1.380	1.417
Peer Companies	1.000	1.063	1.113	1.169	1.227	1.228	1.217
Industry	1.000	1.040	1.077	1.112	1.138	1.137	1.130
Average Merged	1.147	1.147	1.147	1.147		1.398	1.398
Average Peer	1.086	1.086	1.086	1.086		1.222	1.222
Average Industry	1.057	1.057	1.057	1.057		1.133	1.133

Peer Group is CILCO, CIPS, Empire, KCPL, WPS, WPL, MPL, Otter, Interstate

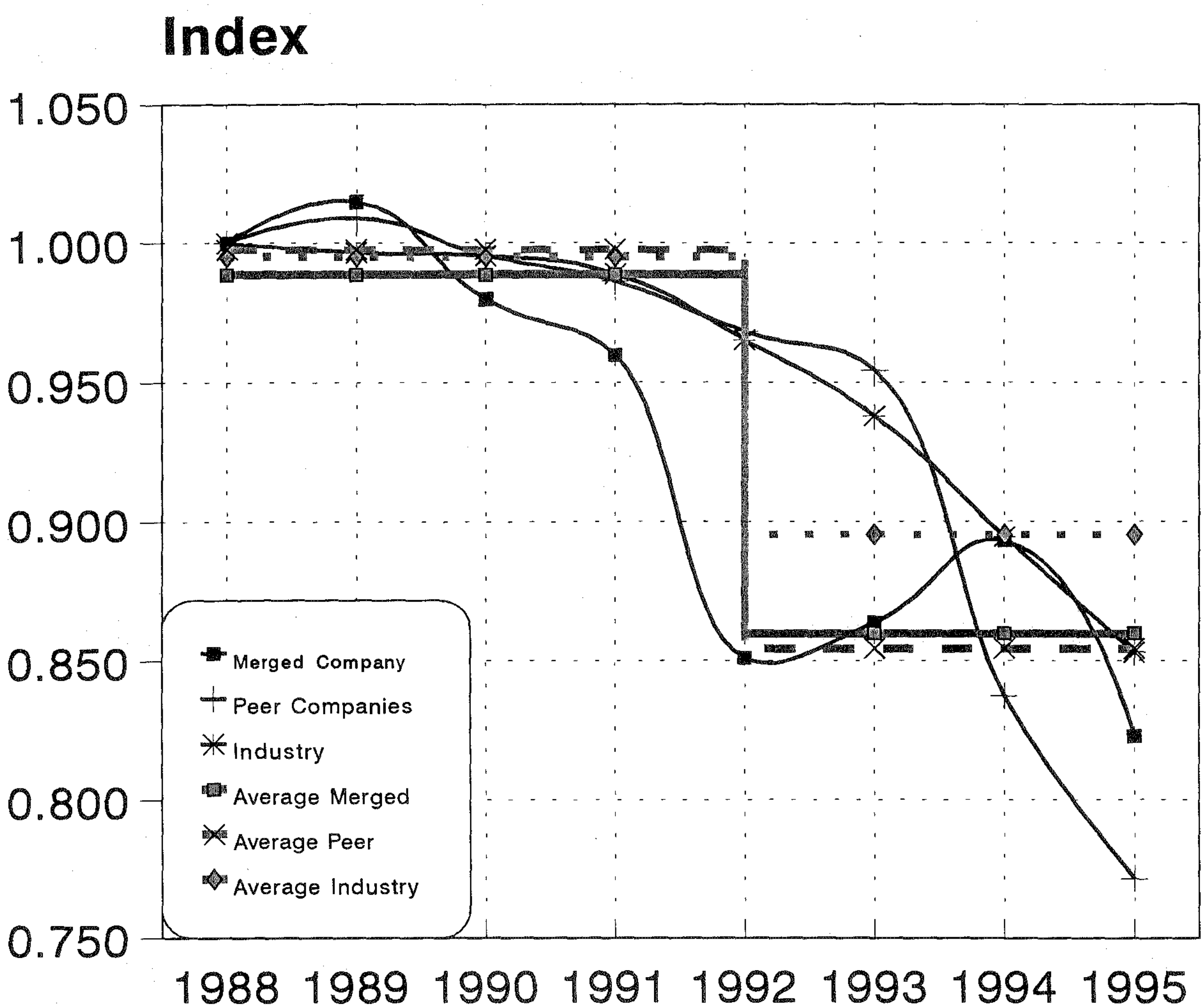
Pacificorp Merger in 1989
Electric Employees



	1985	1986	1987	1988	1989	1990	1991	1992
Merged Company	1.000	1.060	1.001	0.967	0.949	0.953	0.997	0.990
Peer Companies	1.000	0.979	0.973	0.962	0.931	0.924	0.937	0.934
Industry	1.000	1.004	0.988	0.982	0.967	0.962	0.959	0.929
Average Merged	1.007	1.007	1.007	1.007		0.980	0.980	0.980
Average Peer	0.979	0.979	0.979	0.979		0.932	0.932	0.932
Average Industry	0.997	0.997	0.997	0.997		0.974	0.974	0.974

Peer Group is Puget, SDG&E and P.S. Colorado

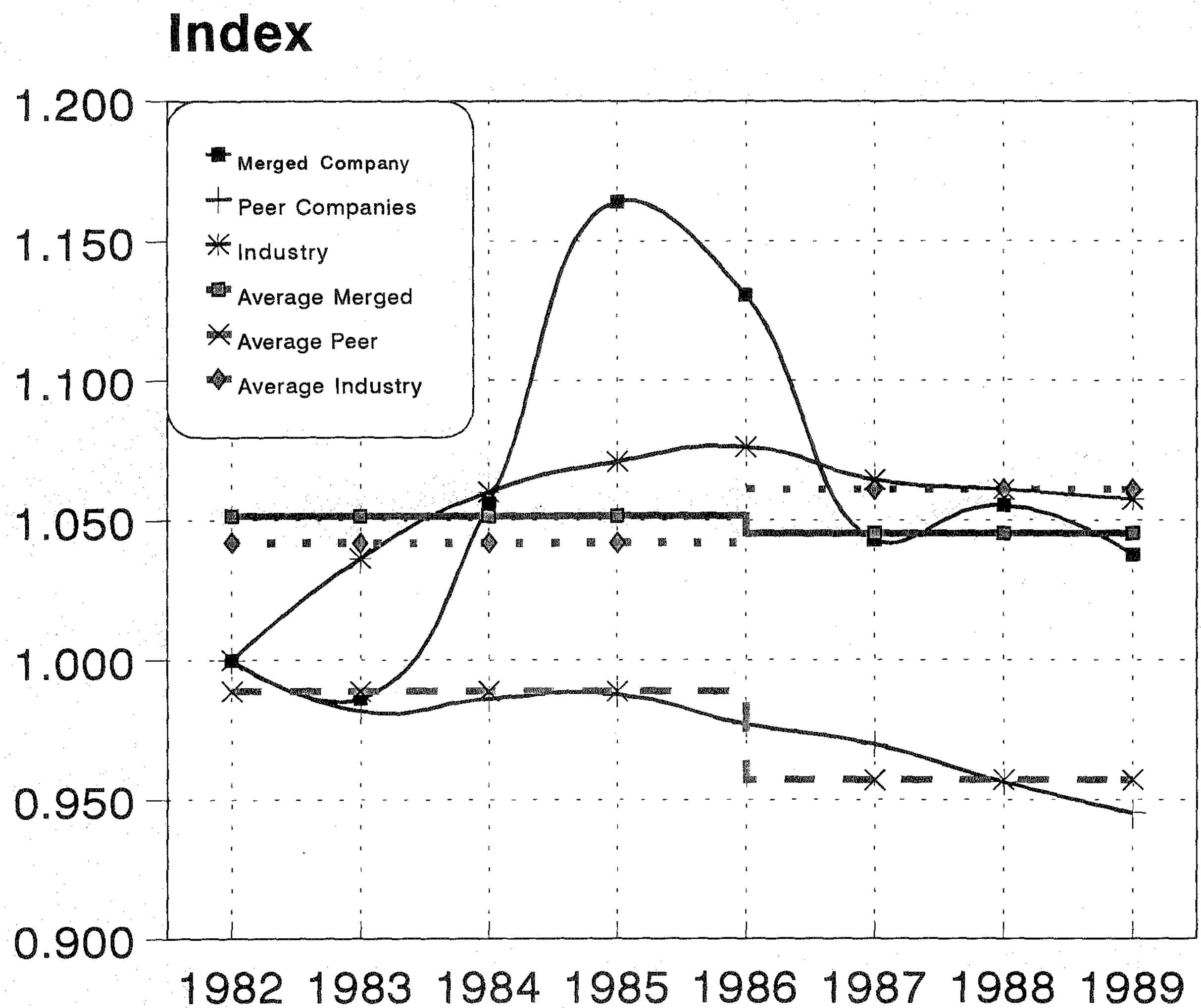
Western Resources Merger in 1992
Electric Employees



	1988	1989	1990	1991	1992	1993	1994	1995
Merged Company	1.000	1.015	0.980	0.960	0.851	0.864	0.893	0.823
Peer Companies	1.000	1.009	0.996	0.986	0.968	0.954	0.837	0.771
Industry	1.000	0.997	0.995	0.989	0.965	0.938	0.895	0.853
Average Merged	0.989	0.989	0.989	0.989		0.860	0.860	0.860
Average Peer	0.998	0.998	0.998	0.998		0.854	0.854	0.854
Average Industry	0.995	0.995	0.995	0.995		0.895	0.895	0.895

Peer Group is KCP&L, OG&E, PSCO, PSO, and UE

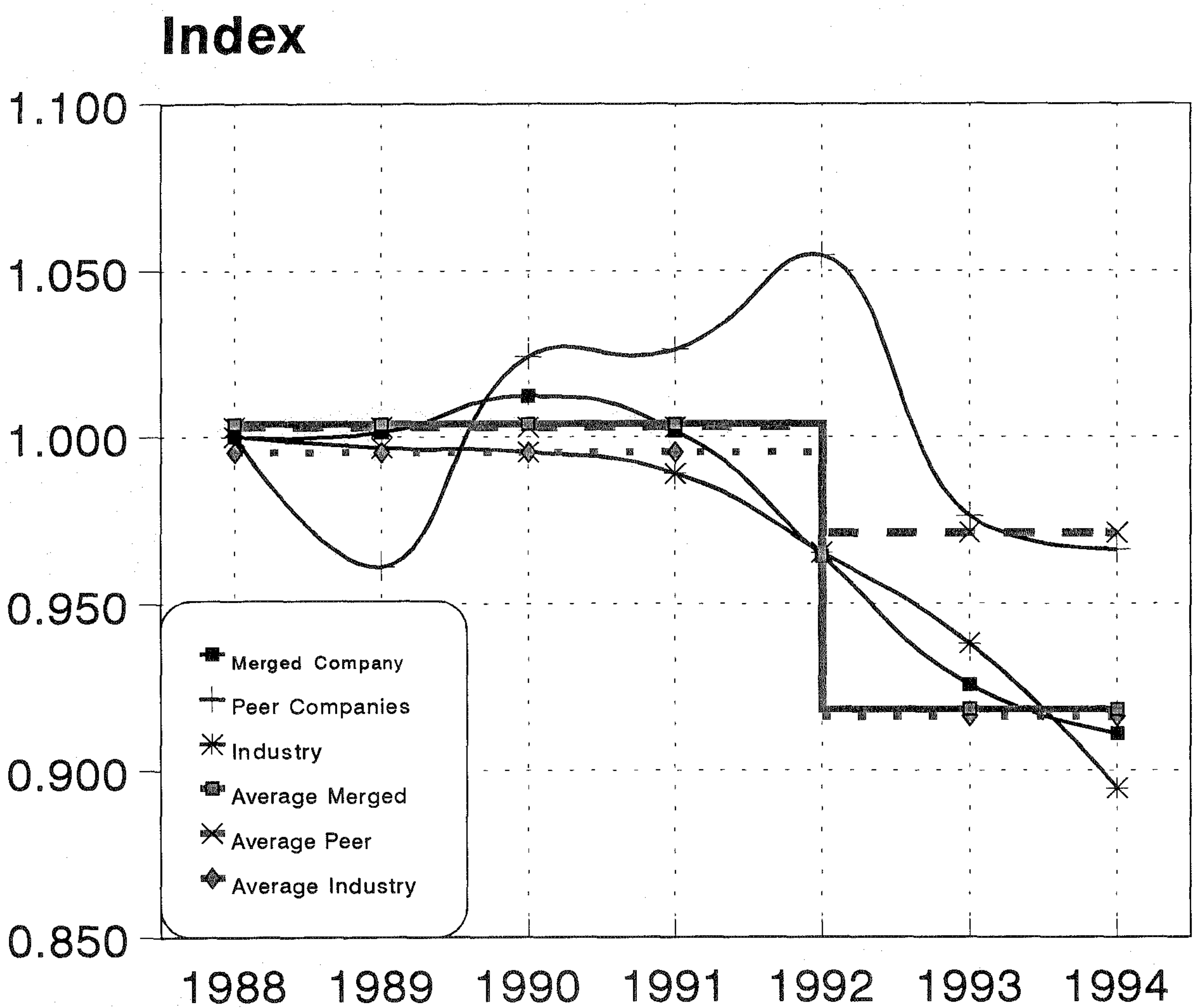
Centerior Merger in 1986
Electric Employees



	1982	1983	1984	1985	1986	1987	1988	1989
Merged Company	1.000	0.986	1.056	1.164	1.131	1.043	1.055	1.038
Peer Companies	1.000	0.982	0.986	0.988	0.977	0.970	0.956	0.945
Industry	1.000	1.036	1.060	1.071	1.076	1.064	1.061	1.057
Average Merged	1.052	1.052	1.052	1.052		1.045	1.045	1.045
Average Peer	0.989	0.989	0.989	0.989		0.957	0.957	0.957
Average Industry	1.042	1.042	1.042	1.042		1.061	1.061	1.061

Peer Group is CSO, DPL, I&M, IPL, NIPSCO, SIGECO, DQU, METED, PENELEC, WEST PENN

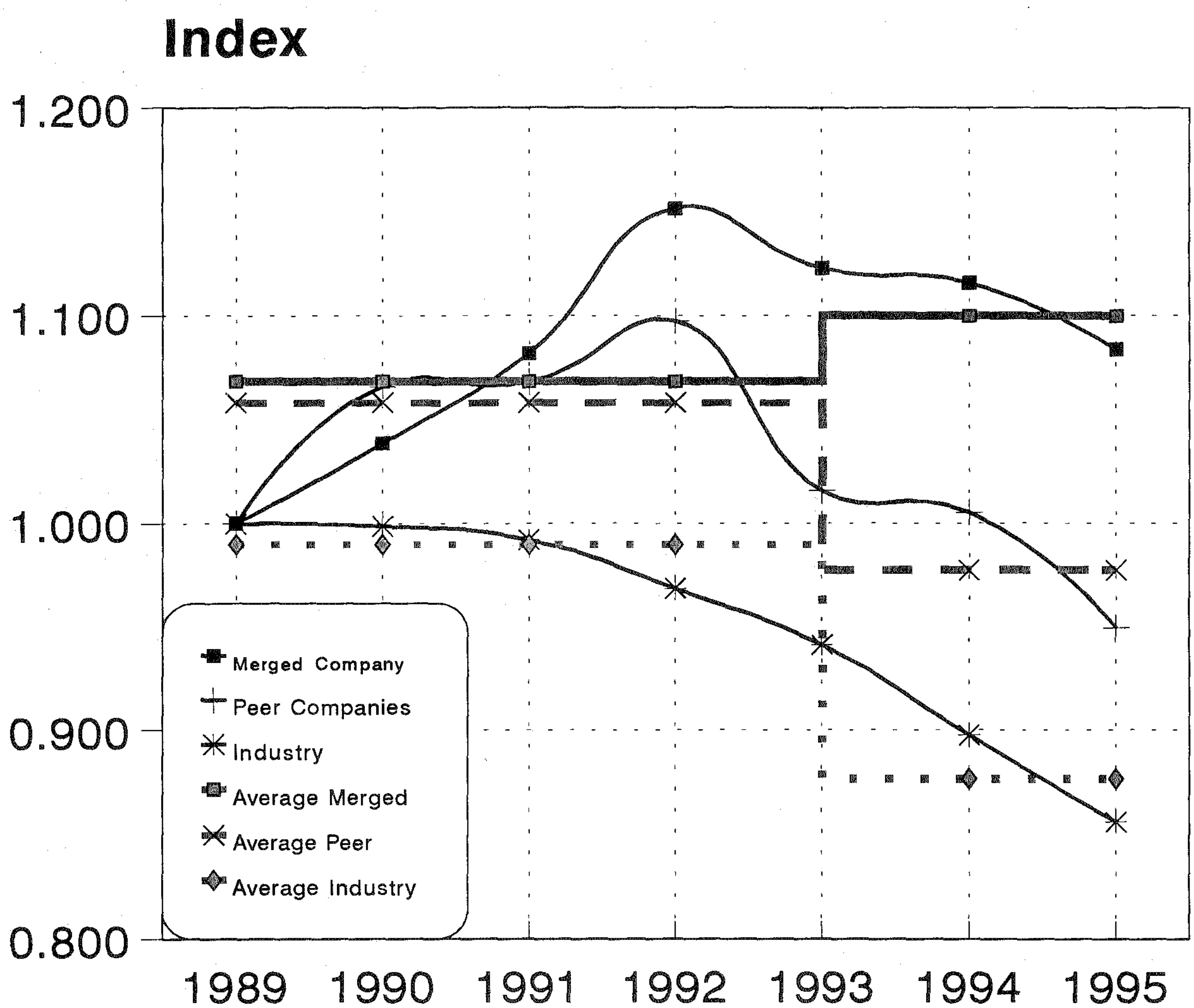
Midwest Resources in 1992
Electric Employees



	1988	1989	1990	1991	1992	1993	1994
Merged Company	1.000	1.001	1.012	1.002	0.964	0.926	0.911
Peer Companies	1.000	0.961	1.024	1.026	1.055	0.976	0.966
Industry	1.000	0.997	0.995	0.989	0.965	0.938	0.895
Average Merged	1.004	1.004	1.004	1.004		0.919	0.919
Average Peer	1.003	1.003	1.003	1.003		0.971	0.971
Average Industry	0.995	0.995	0.995	0.995		0.916	0.916

Peer Group is CILCO, CIPS, Empire, KCPL, WPS, WPL, MPL, Otter, Interstate

IES Merger in 1993
Electric Employees



	1989	1990	1991	1992	1993	1994	1995
Merged Company	1.000	1.038	1.082	1.152	1.123	1.116	1.084
Peer Companies	1.000	1.066	1.068	1.097	1.016	1.005	0.950
Industry	1.000	0.999	0.992	0.969	0.941	0.898	0.856
Average Merged	1.068	1.068	1.068	1.068		1.100	1.100
Average Peer	1.058	1.058	1.058	1.058		0.977	0.977
Average Industry	0.990	0.990	0.990	0.990		0.877	0.877

Peer Group is CILCO, CIPS, Empire, KCPL, WPS, WPL, MPL, Otter, Interstate

Merger Related Employee Reductions Other Than Those Associated With The Eau Claire Office

Function Col. 1	Employment Level at WEC Col. 2	Employment Level at NSP Col. 3	Employment Level at Primergy Col. 4	NSP Projected Reductions Col. 5	Projected Reductions High Col. 6	Projected Reductions Low Col. 7	Discussion Col. 8
Cash Management	7	19	26	6	6	6	Since cash management will be handled on a consolidated basis, I accept NSP estimates in the high-end and low-end scenarios.
Insurance and Risk Management	8	6	14	4	4	4	This treasury area is amenable to merger related savings.
Shareholders Services	5	12	17	4	4	4	Shareholder services are amenable to merger savings because only one set of financial presentations will be made, only one annual meeting held.
Investor Relations	1	3	4	0	0	0	The logic for investor relations is the same as shareholder services.
Business Unit Support Located Centrally	5	30	35	4	4	4	The logic for this function is similar to shareholder services and investor relations.
General Accounting & Financial Management	5	3	8	2	2	1	Since the number of actual financial statements which are prepared will only be reduced by one (1) for regulated businesses, (NSPW/WEC) I do not anticipate a substantial reduction. Therefore, the low-end estimate only has one employee reduction.
Information Resources	244	324	568	150	100	75	When asked NSP to identify specific information systems that will be combined and redundant software and employees. NSP has identified 3 systems: the HR Info System, the Graphic System and System Control System which will produce savings due to the merger. Presumably, based on the response in DPS 310, major systems such as the billing system, accounting system, accounts payable/receivable systems are not impacted by the merger. Given the limited systems integration directly related to the merger, I used a 17% estimate in the high-end case and a 13% estimate in the low-end scenario which are both lower than the 26% reduction assumed by NSP.
Legal Services	12	26	38	8	4	4	In DPS 315 I requested NSP's estimates of eliminated positions split according to attorney, paralegal and clerical. NSP was unable to supply this information. In DPS 316 I requested how much of the legal staffing reductions is attributable to regulatory requirements. NSP was unable to provide specific responses to this request. Based upon the lack of legal caseload reductions, and other than Wisconsin regulatory filing caseload reductions, I reduced NSP's estimated reductions by 50% in both the low-end and high-end scenario.
Government-Federal	1	3	4	1	1	1	
Government-State and Metro	8	12	20	0	0	0	

Merger Related Employee Reductions Other Than Those Associated With The Eau Claire Office

Function Col. 1	Employment Level at WEC Col. 2	Employment Level at NSP Col. 3	Employment Level at Primergy Col. 4	NSP Projected Reductions Col. 5	Projected Reductions High Col. 6	Projected Reductions Low Col. 7	Discussion Col. 8
Community-Field	12	7	19	0	0	0	
Community-Central Management	9	7	16	4	4	4	Activities in this function involve coordination of the utility with local government in a manner that would be least disruptive to the community. Construction projects is an example of the activities impacted. This function is more closely related to the diversity of the service area and their communities and less impacted by the size of the corporation except in the case of support activities. However, some centralization is possible and I have used NSP's estimates.
Regulatory	8	8	16	4	4	4	Same as Above.
Communications	16	34	50	10	10	10	Same as Above.
Administration: Food Service	17	0	17	0	0	0	
Administration: Printing/Mailing/Messenger	18	29	47	0	0	0	
Administration: Document Archive	7	16	23	0	0	0	
Administration: Library	1	0	1	0	0	0	
Administration: Other	3	0	3	0	0	0	
Procurement	33	40	73	20	20	20	In response to DPS 322 NSP stated "reductions primarily occur due to economies of scale". In other words, the company was not able to identify specific work activities which are affected by the merger. However, this function is amenable to merger savings because an increased volume of purchases can be facilitated by a similar number of employees. For example, purchasing 10 or 100 personal computers may require the same manpower. Therefore, I have used NSP estimates in the low-end and high-end scenarios.
Materials Management and Central Stores	41	48	89	8	8	8	This function includes employees who manage movement of materials, operate the central warehouse, and field storekeepers who manage materials. Since NSP could not identify whether the number of warehouses will change after the merger, these eliminations are not supported. However, I have accepted the NSP estimate because of potential to centralize certain operations.
Materials Testing and Disposal	14	35	49	3	3	3	Same as Above.
Custodial and Maintenance	37	36	73	0	0	0	.

Merger Related Employee Reductions Other Than Those Associated With The Eau Claire Office

Function Col. 1	Employment Level at WEC Col. 2	Employment Level at NSP Col. 3	Employment Level at Primergy Col. 4	NSP Projected Reductions Col. 5	Projected Reductions High Col. 6	Projected Reductions Low Col. 7	Discussion Col. 8
Planning	1	7	8	0	0	0	
General	3	15	18	2	2	2	This level of reductions can probably be achieved through reduced levels of supervisory function. Therefore, I accept NSP's estimates in the high-end and low-end scenarios.
Environmental Services	25	44	69	10	9	9	NSP claims that environmental savings arise from the ability to "centralize and combine activities" (IR report 355). Despite this general explanation I believe it is possible to reduce some positions from reduced maintenance of filings and databases for compliance.
Fleet and Transportation	75	67	142	6	6	6	NSP's assumption of a 4% reduction in workforce is reasonable due to centralization of management.
Executice Staff: Officers	20	13	33	8	8	8	Since major decisions at Primergy will be performed on a consolidated basis, these reductions in executive staff are reasonable.
Executice Staff: Staff	19	17	36	10	10	10	Same as Above.
Electric Distribution Management	12	7	19	4	2	2	Management of electric distribution operations are not amenable to merger related savings by creating duplicate work activities. Planning and prioritizing distribution system construction and maintenance should not yield merger related savings. However, since some centralization is possible, I use the NSP estimates.
Electric Supply Management	8	36	44	5	5	5	Conducting wholesale and management functions is conducive to merger related savings. Therefore, I have not changed NSP's estimate in the high-end or low-end projection.
Wholesale and Transmission Service Management	6	10	16	2	2	3	Managing interchange agreements is conducive to merger related savings. Therefore I have not changed NSP's estimate in the high-end and low-end projection.
Substation and Transmission Serv. Organization	176	195	371	75	39	39	This function constructs and maintains substations and transmission facilities. The employees plan and manage distribution and transmission projects, develop distribution plant, obtain rights of way, perform drafting and construction. The actual level of activities is more closely related to the number of substations and related transmission equipment and not the size of the corporation. I have reduced NSP's estimate in order to reflect that many of these activities will not be reduced in the merger company. I expect some economies from standards and supervisory reductions but not in the amounts projected by NSP.

Merger Related Employee Reductions Other Than Those Associated With The Eau Claire Office

Function Col. 1	Employment Level at WEC Col. 2	Employment Level at NSP Col. 3	Employment Level at Primergy Col. 4	NSP Projected Reductions Col. 5	Projected Reductions High Col. 6	Projected Reductions Low Col. 7	Discussion Col. 8
Electric Repair and Testing Centers - Field	7	35	42	0	0	0	I have reduced NSP's estimate in order to reflect that many of these activities will not be reduced in the merged company. I would expect some economies from standards and supervisory reductions.
Electric Repair and Testing Centers - Central	29	84	113	0	0	0	
Gas Management	4	3	7	2	2	2	The natural gas functions include central management, procurement and other work activities that could be amenable to merger savings.
System Operations, Control and Dispatch	24	13	37	6	6	6	Same as Above.
Gas Supply	10	5	15	3	3	3	Same as Above.
Gas Standards and Engineering Services	33	27	60	10	10	10	Same as Above.
Locators and Damage Prevention	0	3	3	0	0	0	Same as Above.
Field Operations: Electric	1,363	885	2,248	0	0	0	
Field Operations: Gas	366	336	702	0	0	0	
Field Operations: Combination	26	441	467	0	0	0	
System Operations	34	78	112	20	10	0	I eliminated the redundant control center in the first stage of my analysis. Therefore, I assume no other savings may occur since I already assumed the Eau Claire dispatch center was closed.
Nuclear Operations	541	827	1368	270	270	178	NSP asserts that operating nuclear plants in a more centralized fashion could lead to significant economies in non-plant nuclear personnel. Although I am skeptical of this large level of employee reductions given the fact that the plants operate on an independent basis, I believe management of similar units can potentially create savings. I also question whether there is room for savings since the nuclear operations and maintenance expenses for WEC and NSP already are among the lowest in the industry. While the cuts are difficult to achieve, they are possible and my high-end estimate adopts NSP's projection. However, the low end case assumes only two thirds of the reductions will arise from the merger. This results in a cut of 13% of the employees rather than 19.7%.

Merger Related Employee Reductions Other Than Those Associated With The Eau Claire Office

Function Col. 1	Employment Level at WEC Col. 2	Employment Level at NSP Col. 3	Employment Level at Primergy Col. 4	NSP Projected Reductions Col. 5	Projected Reductions High Col. 6	Projected Reductions Low Col. 7	Discussion Col. 8
Coal and RDF	785	1,000	1,785	0	0	0	
Hydro	129	4	133	0	0	0	
Oil and Gas	8	15	23	0	0	0	
Centralized Production Support-Combustion and Hydro	79	4	83	10	10	10	Centralized technical support of the non-nuclear power plants could yield employee reductions of this level. I therefore use NSP's estimate.
Centralized Production Support-All Facilities Inc. Nuclear	0	151	151	0	0	0	
Field Production Support - Combustion and Hydro	0	0	0	0	0	0	
Field Production Support-All Facilities Including Nuclear	0	194	194	0	0	0	
Total Utility Employees	5,329	6,322	11,651	947	765	563	
					6.85%	5.05%	

Projected Merger Related Savings From Closing the Eau Claire Headquarters Organization

Category Col. 1	Current Positions At NSP-W Col. 2	Reductions Projected By NSP Due To NSP/WEC Merger Col. 3	Potential Reductions From NSPW/NSPM Merger Col. 4	Discussion of Functional Area and Whether Savings Could Be Achieved From An NSP-W/NSP-M Combination Col. 5
Central Marketing	26	20	20	This function involves monitoring marketing programs and is more related to geographic proximity of customers than state boundaries or regulatory authorities. Therefore, I would expect the same amount of reductions to occur from a NSPW/NSPM merger as from the NSP/WEC combination.
Field Sales	33	0	0	No reductions are projected in sales force for either a NSP/WEC or NSPM/NSPW merger.
Central Sales Mgmt. & Support	5	4	4	Central sales support has nothing to do with political state boundaries. Rather, the sales staff supports field marketing personnel. Because state boundaries are irrelevant, the reduction in central sales management should be similar in a NSPW/NSPM merger or a NSP/WEC merger.
Call Center, Cust. Service & Mktg. - Central	71	37	37	Work activity in this function involves employees who provide customer service and assistance to billing or service problems. The work activity is more related to geography than to state boundaries. Therefore, if merger related eliminations are possible, the reductions in central call center could be at least as high in a NSPM/NSPW merger as in a WEC/NSPW combination.
Call Center, Cust. Service & Mktg. - Field	37	0	0	No reductions are projected for either a NSP/WEC merger or a NSPW/NSPM merger.
General Customer Service and Marketing	0	0	0	
Meter Reading - Field	47	0	0	
Meter Reading - Central Management	2	0	0	
Human Resources: Compensation and Liabilities	1	1	1	Human Resource functions are related more to the number of employees than to state boundaries. Because comparable employee reductions could be achieved either through a NSPM/NSPW merger or a NSP/WEC merger, the HR position eliminations should also be comparable.

Projected Merger Related Savings From Closing the Eau Claire Headquarters Organization

Category Col. 1	Current Positions At NSP-W Col. 2	Reductions Projected By NSP Due To NSP/WEC Merger Col. 3	Potential Reductions From NSPW/NSPM Merger Col. 4	Discussion of Functional Area and Whether Savings Could Be Achieved From An NSP-W/NSP-M Combination Col. 5
Human Resources: Labor Relations	2	2	2	The rationale for labor relations eliminations are the same as for compensation and liabilities.
Human Resources: Training	3	3	3	The rationale for training is the same as for compensation and liabilities -- the reductions are more related to number of employees than state boundaries.
Human Resources: Health and Safety	4	4	4	The explanation of position reductions in health and safety is the same as the other human relations categories.
General Human Resources	8	6	5	The explanation for this category is the same as the other human relations categories.
Security	0	0	0	
Strategy	0	0	0	
Asset Accounting	8	6	4	Some supervisory accounting functions which are related to the number of offices rather than state boundaries could be just as easily eliminated in a NSPW/NSPM merger as the NSP/WEC combination. However, I assume that only through a merger with a Wisconsin utility can some regulatory accounting requirements (such as separate FERC form 1's) be eliminated. Therefore, the number of accounting eliminations is assumed to be 4 in the NSPM/NSPW merger versus 6 reductions in the NSP/WEC merger.
Budget Coordination	4	4	2	Some supervisory accounting functions which are related to the number of offices rather than state boundaries could be just as easily eliminated in a NSPW/NSPM merger as the NSP/WEC combination. However, I assume that only through a merger with a Wisconsin utility can some regulatory related budget requirements be eliminated.
General Ledger Accounting	12	8	5	The explanation for this category is the same as the explanation for asset accounting.
Tax Accounting	0	0	0	

Projected Merger Related Savings From Closing the Eau Claire Headquarters Organization

Category Col. 1	Current Positions At NSP-W Col. 2	Reductions Projected By NSP Due To NSP/WEC Merger Col. 3	Potential Reductions From NSPW/NSPM Merger Col. 4	Discussion of Functional Area and Whether Savings Could Be Achieved From An NSP-W/NSP-M Combination Col. 5
Audit	0	0	0	
Pricing/Rate Design	4	3	0	Since Wisconsin rate and regulatory filing requirements would not change with the NSPM/NSPW merger, I do not assume any of the reductions which are projected in the NSP/WEC merger would occur in the NSPM/NSPW merger scenario.
Revenue Requirements	2	2	0	The rationale for merger related eliminations in revenue requirement functions is the same as the explanation for pricing and rate design.
Financial Forecast & Investment Analysis	2	2	2	Forecasting functions could be centralized as easily in a NSPM/NSPW merger as a NSP/WEC merger. These functions have little to do with whether the forecasts are prepared in Minneapolis or Milwaukee.
Funds Management	0	0	0	
Cash Management	5	5	4	Cash management could be centralized as easily in a Minneapolis office as in a Milwaukee office.
Insurance and Risk Management	0	0	0	
Shareholders Services	0	0	0	
Investor Relations	0	0	0	
Business Unit Support Located Centrally	3	3	3	Employees in this category support budgets and financial forecasts. These functions could probably be centralized as easily in Minneapolis as Milwaukee. Therefore, the savings should be similar in a NSPM/NSPW merger and a NSP/WEC merger.
General Financial & Accounting Management	5	5	5	These functions could be performed at Minneapolis or Milwaukee.

Projected Merger Related Savings From Closing the Eau Claire Headquarters Organization

Category Col. 1	Current Positions At NSP-W Col. 2	Reductions Projected By NSP Due To NSP/WEC Merger Col. 3	Potential Reductions From NSPW/NSPM Merger Col. 4	Discussion of Functional Area and Whether Savings Could Be Achieved From An NSP-W/NSP-M Combination Col. 5
Information Resources	21	21	21	The system technicians and other professionals in this category could probably more easily be integrated in Minneapolis than Milwaukee because the NSPM and NSPW systems are probably more compatible than the NSP and WEC systems. Therefore, I assume an equal level of employee reductions would arise from either a NSPM/NSPW merger or a NSP/WEC merger.
Legal Services	4	2	0	The legal area is influenced by state boundaries because of state regulatory requirements and state laws. Therefore, I assume that none of the reductions which arise from a NSP/WEC merger would exist in a NSPM/NSPW merger.
Public Affairs				
Public Affairs: Federal	0	0	0	
Public Affairs: State and Metro	0	0	0	
Public Affairs: Field	5	0	0	
Community-Central Management	3	2	2	Management of employees who represent the company in the community could be moved to Minneapolis as easily as Milwaukee. Therefore, I assume the same number of reductions in a NSPM/NSPW merger as a NSP/WEC combination.
Regulatory	1	1	0	An NSPM/NSPW merger would not reduce regulatory requirements which could potentially be achieved with a NSP/WEC merger. Therefore, I do <u>not</u> assume any reductions in a NSPW/NSPM merger.
Communications	2	2	0	
Administration: Food Service	0	0	0	

Projected Merger Related Savings From Closing the Eau Claire Headquarters Organization

Category Col. 1	Current Positions At NSP-W Col. 2	Reductions Projected By NSP Due To NSP/WEC Merger Col. 3	Potential Reductions From NSPW/NSPM Merger Col. 4	Discussion of Functional Area and Whether Savings Could Be Achieved From An NSP-W/NSP-M Combination Col. 5
Administration: Printing/Mailing/Messenger	2	2	2	The employees who provide services at the corporate facilities could be eliminated from either moving the offices to Milwaukee or to Minneapolis. These eliminations are a function of closure of the office which arises from either a NSPM/NSPW merger or a NSP/WEC combination.
Administration: Document Archive	2	1	1	Same rationale as printing/mailing/messenger.
Administration: Library	0	0	0	Same rationale as printing/mailing/messenger.
Administration: Other	4	2	2	Same rationale as printing/mailing/messenger.
Procurement	6	6	4	Management of materials procurement has very little to do with state boundaries. In fact, because of procurement standards and procedures it may be easier to consolidate at Minneapolis than Milwaukee. Therefore, I assume the same level of reductions can be achieved from a NSPM/NSPW merger.
Materials Management and Central Stores	14	14	0	Because WEC has warehouses near the Eau Claire headquarters, I assume the employee reductions would not occur in a NSPW/NSPM merger scenario.
Materials Testing and Disposal	1	1	1	Operation of central materials testing and management of the disposal of hazardous materials could be centralized as easily in either Minneapolis or Milwaukee.
Custodial and Maintenance	2	2	2	Custodial services would be eliminated in both the NSPM/NSPW merger and the NSP/WEC merger because of closure of the Eau Claire office in either merger scenario.
Facilities and Management: Planning	0	0	0	
Facilities and Management: General	1	1	1	
Environmental Services	8	8	4	Management of employees who coordinate compliance with environmental rules and procedures could be consolidated in either Minneapolis or Milwaukee.
Fleet and Transportation	16	12	0	The rationale for this category is the same as the rationale for Central Warehouse and Materials Management.
Executive Staff Officers	6	5	5	Executive staff would be redundant with closure of the Minnesota headquarters through either a NSPW/NSPM merger or a NSP/WEC merger.

Projected Merger Related Savings From Closing the Eau Claire Headquarters Organization

Category Col. 1	Current Positions At NSP-W Col. 2	Reductions Projected By NSP Due To NSP/WEC Merger Col. 3	Potential Reductions From NSPW/NSPM Merger Col. 4	Discussion of Functional Area and Whether Savings Could Be Achieved From An NSP-W/NSP-M Combination Col. 5
Executive Staff	3	3	3	The rationale for executive staff is the same as the explanation for executive officers.
Electric Distribution Management	5	3	3	Management of distribution system operations has more to do with geographic proximity than political state boundaries. The reductions from consolidating offices in Milwaukee could just as easily occur from consolidating offices in Minneapolis.
Electric Supply Management	0	0	0	
Wholesale and Transmission Service Management	2	0	0	
Substation and Transmission Serv. Organization	43	25	25	Engineering projects, obtaining right of way, drafting, construction and project management are not driven by state boundaries. If savings could be achieved in these functions from a merger, the savings could as easily be accomplished by a NSPM/NSPW merger.
Electric Repair and Testing Centers - Field	0	0	0	
Electric Repair and Testing Centers - Central	17	17	17	If savings could be achieved through merging NSP and WEC employees who perform tests at repair shops and repair meters, the savings could arise as easily from a NSPM/NSPW merger. These functions have little to do with state boundaries.
Gas Management	0	0	0	
System Operations, Control and Dispatch	0	0	0	
Gas Supply	6	6	0	I have assumed that potential savings which are available in a NSP/WEC merger would <u>not</u> be available from a NSPM/NSPW merger because of the possibility that there is more pipeline supply overlap between NSP and WEC than between NSPW and NSPM.
Gas Standards and Engineering Services	13	10	8	If engineers who are involved in the planning, engineering and mapping of the gas distribution system can be eliminated through a NSP/WEC merger, those employees could be as easily eliminated in the NSPM/NSPW merger scenario.
Locators and Damage Prevention	0	0	0	
Electric Field Operations	229	0	0	
Gas Field Operations	41	0	0	

Projected Merger Related Savings From Closing the Eau Claire Headquarters Organization

Category Col. 1	Current Positions At NSP-W Col. 2	Reductions Projected By NSP Due To NSP/WEC Merger Col. 3	Potential Reductions From NSPW/NSPM Merger Col. 4	Discussion of Functional Area and Whether Savings Could Be Achieved From An NSP-W/NSP-M Combination Col. 5
Combination	26	0	0	
Production				
System Operations	21	12	0	I assume that in a NSP/WEC scenario, the Eau Claire dispatch center could be closed because there is less need for a back-up facility. However, in a NSPM/NSP merger, it could be argued that there is still need for a back-up facility. Therefore, I assume that savings arising from a NSP/WEC scenario could <u>not</u> arise from a NSPM/NSPW merger.
Nuclear Operations	0	0	0	
Coal and RDF	71	0	0	
Hydro	87	0	0	
Oil and Gas	8	0	0	
Centralized Production Support-Combustion and Hydro	8	3	0	
Centralized Production Support-All Facilities Inc. Nuclear	0	0	0	
Field Production Support - Combustion and Hydro	0	0	0	
Total	962	276	202	

Merger Related Employee Reductions Other Than Those Associated With The Eau Claire Office

Function Col. 1	Employment Level at WEC Col. 2	Employment Level at NSP Col. 3	Employment Level at Primergy Col. 4	NSP Projected Reductions Col. 5	Projected Reductions High Col. 6	Projected Reductions Low Col. 7	Discussion Col. 8
Central Marketing - Electric	0	70	70	0	0	0	
Central Marketing - Gas	0	19	19	0	0	0	
Central Marketing - Combination	78	0	78	37	37	25	To review potential savings from this function I asked NSP to breakdown positions according to DSM/non-DSM and supervisory, management/technical clerical. NSP responded that it did not attempt to classify the position reductions into the categories described above. Areas such as load research, DSM program evaluation and design, new product and development are potentially amiable to centralization and duplication. For example, one set of load research class demand studies can be completed rather than the two-three which are currently performed Therefore, despite the fact that NSP could not explain what specific work activities occurred in this function, or, the categories of employees (e.g., supervisory, technical/management or clerical), I accept the position elimination projections in the high end case. In the low-end case I eliminate 25 rather than 37 positions based upon elimination of team leader and clerical support functions (10) plus 15 additional people due to reduced work load.
Field Sales - Electric	0	63	63	0	0	0	
Field Sales - Gas	0	14	14	0	0	0	
Field Sales - Combination	116	14	130	0	0	0	
Central Sales Mgmt. & Support - Electric	0	10	10	0	0	0	
Central Sales Mgmt. & Support - Gas	0	2	2	0	0	0	

Merger Related Employee Reductions Other Than Those Associated With The Eau Claire Office

Function Col. 1	Employment Level at WEC Col. 2	Employment Level at NSP Col. 3	Employment Level at Primergy Col. 4	NSP Projected Reductions Col. 5	Projected Reductions High Col. 6	Projected Reductions Low Col. 7	Discussion Col. 8
Central Sales Mgmt. & Support - Combination	10	0	10	6	6	4	Presumably, the sales management and support employees provide services to field personnel related to marketing activities. Currently 22 employees support 227 field personnel which is a ratio of 9.4:1. In information request 299, I asked NSP to specify which positions are redundant. However, NSP did not respond with any specific information. I am not convinced that the marketing support function is naturally amenable to merger savings because there is a limit on how many support employees can provide effective back-up services to field personnel. In the high-end projection I assume that the NSP projected ratio of 12 to 1 employees can be achieved because of merging central functions, while the low-end projection is based on WEC's ratio of 11.5.
Call Center, Cust. Service & Mktg. - Central	312	218	530 ~~16.9%~~ 17%	90	45	22	Employees who provide customer service in person or service customer requests by telephone are related to the number of customers or requests from customers rather than the size of the company. NSP could not provide a breakdown of employees in this function by call center, cusomer service and accounting (DPS 300). Further, since consolidation of multiple calls centers will not achieve economies after a certain size, it is not clear if duplicate activities exist. For example, supervisors monitor quality control by listening in on call. These activities could not be cut without service quality degradation. Therefore, I classify, reductions in this category to be dubious or uncertain. In the high case I used 6.1% reductions due to redundancy in supervisory and support functions. My low-end estimates assume 22 reductions which is a 23% decline.
Call Center, Cust. Service & Mktg. - Field	97	105	202	0	0	0	
General Customer Service and Marketing	11	8	19	4	4	2	Customer service should be more related to number of customers than size of company. Therefore, I have reduced the eliminations by 50% in the low-end case.
Meter Reading - Field	149	243	392	0	0	0	
Meter Reading - Central Management	4	6	10	2	2	2	I accept NSP's projection for this category because of the potential to eliminate redundant supervisory positions with larger company.

Merger Related Employee Reductions Other Than Those Associated With The Eau Claire Office

Function Col. 1	Employment Level at WEC Col. 2	Employment Level at NSP Col. 3	Employment Level at Primergy Col. 4	NSP Projected Reductions Col. 5	Projected Reductions High Col. 6	Projected Reductions Low Col. 7	Discussion Col. 8
Human Resources: Compensation and Liabilities	12	22	34	8	4	2	NSP was unable to document the magnitude of human resources reductions that are due to redundancies in the new organization versus how many are attributable to a reduced workload resulting from the smaller number of employees in the new organization. The work activities performed by labor relations, training, health and safety, etc., are related to the number of employees in the company. For example, the primary function of labor relations is dealing with grievances. NSP expected a 20% reduction in HR functions in spite of the fact that it expects to eliminate 10.1% of employees. I have reduced NSP's estimates in the high-end case to 10% based on maximum number of employees than NSP expects to eliminate. In the low-end case I use a 6% assumption based on fewer employee eliminations.
Human Resources: Labor Relations	13	11	24	8	4	2	Save as Above.
Human Resources: Training	24	54	78	20	10	8	Same as Above.
Human Resources: Health and Safety	23	50	73	8	4	2	Same as Above.
Human Resources: General Human Resources	43	22	65	15	7	3	Same as Above.
Human Resources: Security	4	12	16	0	0	0	Same as Above.
Business Plan Development	6	0	6	0	0	0	Business planning and development functions are amenable to merger savings because only one corporate entity will exist for business planning purposes. Therefore, I accept NSP's estimated eliminations in both the high-end and low-end case.
Strategy	6	6	12	5	5	5	See the explanation above.
Asset Accounting	18	26	44	10	10	7	In IR request number 306 I asked NSP to describe a breakdown of employees and, in request No. 353, I asked NSP to explain if the accounting systems are compatible. NSP explained that the accounting systems are <u>not</u> compatible which implies significant merger savings in accounting areas are dubious. Indeed, modifications in the accounting systems will be required to account for the new corporate structure (IR request 353). Because of questionable rationale and lack of support, the low-end estimate is reduced from 10 to 7 position eliminations.

Merger Related Employee Reductions Other Than Those Associated With The Eau Claire Office

Function Col. 1	Employment Level at WEC Col. 2	Employment Level at NSP Col. 3	Employment Level at Primergy Col. 4	NSP Projected Reductions Col. 5	Projected Reductions High Col. 6	Projected Reductions Low Col. 7	Discussion Col. 8
Budget Coordination	7	7	14	5	5	5	Since NSP explains that "employees in this category support development of budgets on a corporate wide basis", and since fewer corporate budgets would be developed, the functional area is amenable to merger savings. Therefore, I have accepted NSP's estimate in both the high-end and low-end scenario.
General Ledger Accounting	60	58	118	35	35	18	Other than due to closure of Eau Claire, a similar number of general ledgers would be maintained after the merger. Therefore, the number of employees who perform general ledger accounting is not obviously amenable to merger savings -- a similar number of bookkeeping entries will be required with or without the merger. Because of the questionable logic for reducing 35 employees, my low-end estimates eliminates 18 employees (approximately 50% of NSP's estimate).
Tax Accounting	9	8	17	5	5	5	Because Primergy will presumably file one consolidated tax return, some employees who support preparation of the return will logically become redundant due to the merger. Therefore, I accept NSP's estimated eliminations in both the high-end and the low-end scenario.
Audit	10	12	22	4	4	4	Since the internal audit function is inherently centralized, I have accepted the NSP estimates in the low-end and high-end scenarios.
Pricing/Rate Design	7	17	24	4	2	0	Theoretically, after recognizing savings from consolidating NSPW and WEC, regulatory requirements of the merged company should not be significantly affected by the merger. Therefore, minimal eliminations are logically related to the merger. However, because of the rate freeze, I have assumed 50 percent of NSP's assumed eliminations in the high-end case.
Revenue Requirements	5	19	24	4	2	0	The logic for revenue requirements is the same as the logic for pricing and rate design.
Financial Forecast & Investment Analysis	6	10	16	4	4	4	Financial forecasting and investment analysis will presumably be performed on a consolidated basis rather than separately for WEC and NSP. Therefore, I accept NSP's estimates in the high-end and low-end scenarios.
Funds Management	4	2	6	2	2	2	Employees who handle funds such as pension could presumably handle higher dollar volumes per person in a merger scenario. Therefore, I assume these eliminations are potentially amenable to merger saving and I accept the NSP estimates in the high-end and low-end case.